

Message Text

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ACTION ARA-10

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FM AMEMBASSY BRIDGETOWN

TO SECSTATE WASHDC 8941

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E.O. 11652: N/A

TAGS: EGEN ECON BB

SUBJ: PM MAKES "STATE OF ECONOMY" REPORT

REF: BTN 2143 (12/12/74)

1. PM ERROL BARROW APPEARED ON TV IN AN UNPRECEDENTED "STATE OF ECONOMY" PRESENTATION ON MAY 30 PRIOR TO HIS JUNE 1 DEPARTURE FOR IMF MEETINGS IN EUROPE. DURING 25-MINUTE ADDRESS, BARROW DEFENDED HIS GOVERNMENT'S HANDLING OF ECONOMIC CRISIS, NOTING THAT BARBADOS' BUDGETARY AND BALANCE OF PAYMENTS SITUATIONS, AND INTERNATIONAL RESERVE POSITION HAD SHOWN CONSIDERABLE RECENT IMPROVEMENT. PM CLAIMED THAT HIS NOVEMBER EMERGENCY BUDGET (REFTEL) ELIMINATED ANTICIPATED RECURRENT DEFICIT FOR FY 1974-75 OF U.S. DOLS 15 MILLION AND RESULTED IN SMALL SURPLUS ACCRUING FOR THAT PERIOD. PM DISCLOSED THAT 1974-75 CAPITAL ACCOUNT SHOWED DEFICIT OF SOME \$17 MILLION BUT REITERATED HIS READINESS TO BORROW WILLINGLY FOR CAPITAL EXPENDITURES BUT NOT REPEAT NOT FOR SALARIES AND WAGES.

2. PM DISCLOSED IMPROVED TRADE PICTURE FOR 1974 WITH EXPORTS UP 66 PERCENT OVER 1973, MAINLY BECAUSE OF HIGHER SUGAR PRICES. TOURISM RECEIPTS WERE ALSO UP 14 PERCENT OVER 1973 (WITH CANADIANS UNCLASSIFIED

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OUTNUMBERING AMERICANS FOR FIRST TIME), ALTHOUGH ARRIVALS IN-

CREASED ONLY BY ABOUT 4 PERCENT. PM ALSO DISCLOSED THAT BALANCE OF PAYMENTS HAD SHOWED SMALL OVERALL SURPLUS OF \$2 MILLION IN 1974, A WELCOME CHANGE FROM CHRONIC DEFICIT POSITION OF RECENT YEARS. PM ALSO SAID SMALL SURPLUS WAS ALSO EXPECTED FOR 1975 THANKS TO CONTINUED HIGH SUGAR PRICES.

3. PM DESCRIBED RESERVE LEVELS AS SHOWING "ENCOURAGING STABILITY" WITH LEVELS AT \$47 MILLION FOR APRIL 30, 1975 COMPARED WITH DOLS 17.3 MILLION FOR THAT DATE IN 1974. PM LOOKED FOR CONTINUED IMPROVEMENT OF RESERVE LEVELS IN NEAR FUTURE THANKS TO HIGH SUGAR AND TOURISM RECEIPTS.

4. ON NEGATIVE SIDE, PM ACKNOWLEDGED THAT BARBADOS FACED CONTINUED UNEMPLOYMENT PROBLEM WITH RAPIDLY RISING COSTS LEADING TO LAYOFFS AND RETRENCHMENT IN MANY INDUSTRIES, PARTICULARLY IN CONSTRUCTION AND DISTRIBUTION SECTORS. PM ALSO NOTED THAT INCREASE IN PRICE LEVEL FOR 1974 DOUBLED 1973 RATE BUT VOICED SOME OPTIMISM REGARDING 1975, FIRST THREE MONTHS OF WHICH HAD SHOWN INCREASE OF ONLY 5 PERCENT COMPARED TO 12 PERCENT RISE FOR SAME PERIOD IN 1974.

5. BY WAY OF STIMULATIVE MEASURES, PM DISCLOSED PLANS FOR NEW SUGAR EXPORT LEVY IN ADDITION TO EXISTING LEVY OF \$20 PER TON, PROCEEDS OF WHICH WOULD BE USED TO PROVIDE FOR LOANS IN CONSTRUCTION AND AGRICULTURAL FIELDS. NEW LEVY IS GRADUATED ACCORDING TO PRICE RECEIVED FOR SUGAR AND IS EXPECTED TO RAISE SOME \$7 MILLION IN NEW LOW INTEREST LOAN FUNDS. FUNDS WOULD BE ALLOCATED TO BARBADOS WORKERS' UNION AND NATIONAL HOUSING CORPORATION FOR MORTGAGE AND HOUSING LOANS AND TO AGRICULTURE FOR MECHANIZATION AND DIVERSIFICATION.

6. PM'S DISCLOSURE THAT GOB WILL PEG ITS CURRENCY TO US DOLLAR BEING REPORTED SEPTEL.

7. COMMENT: WE HAVE NOT HAD SUFFICIENT TIME TO ANALYZE FULLY PM'S SPEECH. FIRST REACTION IS THAT IT WAS CREDITABLE PERFORMANCE AT FORTUNATE JUNCTURE, I.E. LATE SPRING WHEN BARBADOS' TOURISM AND SUGAR RECEIPTS ARE AT HIGHEST POINT. PM'S SCHEME FOR STIMULATING AGRICULTURE AND CONSTRUCTION APPEARS SOUND ALBEIT ON A MODEST SCALE AND HIS CALL FOR LOWERED INTEREST RATES AND

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EASIER LOAN TERMS HAS BROUGHT POSITIVE RESPONSE FROM TWO MAJOR BANKS. EDITORIAL IN ADVOCATE NEWS OF 6/1/75 TERMED SUGAR LEVY "STRONG MEDICINE" BUT SIDESTEPED DIRECT COMMENT ON PM'S LOAN PROJECTS AND HIS EVALUATION OF ECONOMY. WE WOULD AGREE ESSENTIALLY WITH PM'S ASSESSMENT ALTHOUGH HE APPEARED TO DOWNPLAY SERIOUS UNEMPLOYMENT PROBLEM. SUGAR HAS SAVED BARBADOS FROM MORE SERIOUS ECONOMIC TROUBLE AND FURTHER SIGNIFICANT DECLINE IN INTERNATIONAL PRICES COULD TURN BALANCE AGAINST BARBADOS IN FUTURE.

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